92-05642/

1991

ANNUAL REPORT

SEDCO

SASKATCHEWAN ECONOMIC
DEVELOPMENT CORPORATION

THE CORPORATION

The Saskatchewan Economic Development Corporation was established under the terms of the Industrial Development Act, 1963.

Since that time, the corporation has developed a province-wide reputation for developing programs to promote economic development in Saskatchewan.

The corporation provides a wide range of financial and property services to business in nearly all sectors of the provincial economy. Emphasis is directed to small business.

SEDCO's mandate is to assist viable Saskatchewan businesses to create jobs by providing loans and real estate for start ups and expansions.

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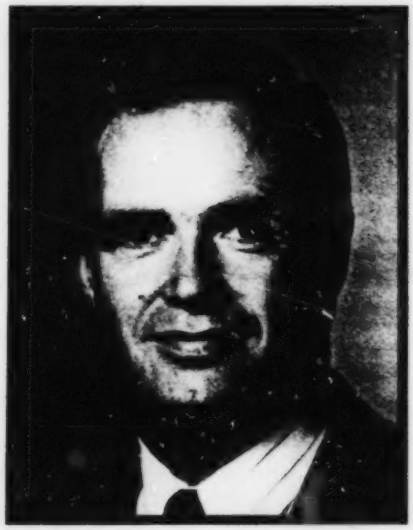
LETTER OF TRANSMITTAL

To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Economic Development Corporation for the year ended December 31, 1991, including the financial statements duly certified in accordance with the Industrial Development Act.

I have the honour to be,
Your obedient servant,



Hon. Dwain Lingenfelter
Minister Responsible
Saskatchewan Economic
Development Corporation

MANAGEMENT REPORT

The year 1991 was another challenging one for the Saskatchewan Economic Development Corporation. Faced with the cumulative effects of difficult economic conditions over the past several years, many clients continued to suffer a variety of problems. Coupled with such difficulties is the fact that with a mandate as an economic development lender, the corporation traditionally takes higher risks. The end result was a loss of $42 million.

Rather than retrench in the face of the economic climate, SEDCO opted to continue its traditional support of businesses which were struggling to get started, to expand, or to simply maintain their foothold in a difficult environment. The challenge was faced not only by continuing to assist in the development of new enterprises, but by increasing the emphasis on maintaining or redeveloping existing businesses.

That decision is reflected in the fact that activity levels in terms of loan approvals were the third highest in SEDCO's 28-year history. The corporation approved 317 loans totalling $51.2 million in 1991, including financing for small business loans associations operated by independent community groups throughout the province. The combination of loans made directly by SEDCO and by the small business loans associations created 629 new businesses.

An important measurement of the corporation's impact during the year was the number of jobs involved. SEDCO activities in 1991 assisted in the creation of approximately 2,150 jobs for Saskatchewan people and maintained an additional 8,000. More than 1,200 of the new jobs created were in rural areas, reflecting a continued emphasis on assisting economic development outside the major urban centres.

Another important aspect of SEDCO's continued high level of activity was the levering of additional funding from conventional lenders at a time when business people were facing a serious lack of available capital. Its support of business projects often prompted financing by other lenders far in excess of SEDCO's investment.

The focus on small business was also continued during 1991. Of the 317 loans approved, 85 per cent were for $250,000 or less.

The total assets of the corporation in 1991, consisting of loans, equity investments, property holdings and other assets, had a value of $245 million. Income before interest expense, provision for loss, write downs of property and share investments was $12.7 million.

During 1991 SEDCO entered into a contract to manage and administer all aspects of the Saskatchewan Government Growth Fund (SGGF), a government-administered venture capital fund under the federal government's immigrant investor program. SGGF acts as a vehicle for foreign investors to invest in businesses located in Saskatchewan and to facilitate the investor's qualification as a Canadian permanent resident.

One of SEDCO's continued strengths is the professionalism and talent of its employees. They work together as a team with initiative and genuine concern to provide quality service to SEDCO and its clients. Their contributions and encouragement are truly appreciated.

LOANS AND INVESTMENTS

The Loans and Investments Division maintained a high level of activity in 1991 with 116 approvals for a total value of $42,047,000. The introduction of the Participating Loan Services in 1989 caused a flurry of activity above the norm which spilled over into the loans division.

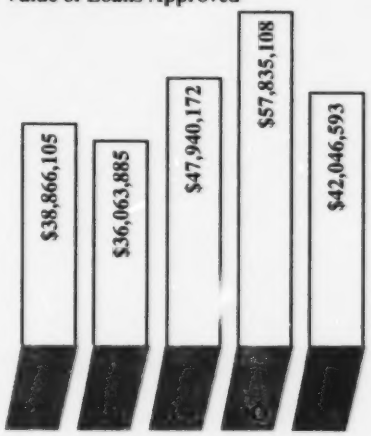
The number of jobs created in 1991 remained high at 464 and 3,751 positions were maintained as a result of funding by this division.

The emphasis on small business was maintained in 1991. The division approved 86 loans of less than $100,000 which represents 74 per cent of all loan approvals for the year. In fact, 79 per cent of all loans approved by this division were for less than $250,000.

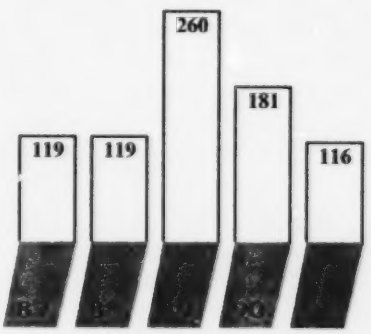
The Working Capital Loan Service remained popular with 27 loan approvals for a value of $925,000. Introduced in 1989, working capital loans accounted for 23 per cent of all loan approvals by this division in 1991.

Total disbursement during 1991 was $35,494,938 and the loan portfolio was $132.3 million.

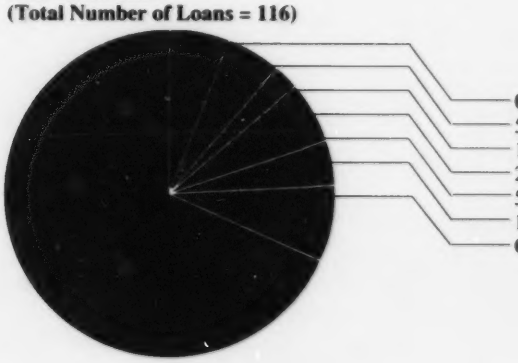
Value of Loans Approved



Number of Loans Approved



Size Distribution
(Total Number of Loans = 116)



Loan Size	Dollar Amount
0 - $50,000	$ 2,185,393
50,000 - 100,000	596,200
100,000 - 250,000	1,080,000
250,000 - 500,000	927,000
500,000 - 1,000,000	6,115,000
1,000,000 - 1,500,000	6,560,000
Over - 1,500,000	24,583,000
	$42,046,593

PARTICIPATION

The Participation Division, formed in 1989, provides services which are specifically designed to assist small business, especially in rural Saskatchewan.

The Small Business Loans Association service remained popular throughout 1991 and 50 new associations were formed. Total small business loans associations formed since inception in 1989 was 266. These associations are formed by four or more people and SEDCO assists them in lending money to viable projects within their local areas. Since the program was introduced, these associations have made an estimated 1,998 loans totalling $9,109,677. The 979 loans in 1991 for approximately $4.4 million levered an estimated $9.3 million from other sources. Funding by these associations assisted in the creation of 1,361 jobs and maintaining approximately 957 positions.

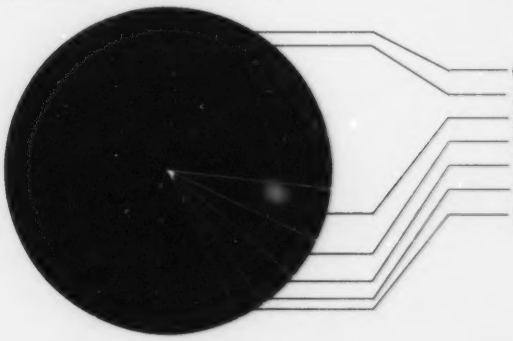
A significant aspect of the impact provided by the division's loan services is the relatively low cost per job created or maintained, compared with other economic development programs. SEDCO estimates the cost of creating and maintaining jobs through the participating loans and small business loans associations in 1991 to be $1,300 per job compared to $10,000 to $25,000 per job under more conventional programs.

Participation loans approved by the division during 1991 assisted in creating 257 new positions and maintaining 453 jobs. This service is designed to help both new and existing viable businesses attract investment or conventional financing. The 75 participating loan approvals in 1991 totalling $6,028,400 are an example of successful efforts to attract financing from traditional lenders in that an estimated $31 million in funding was levered from those sources.

Participating loans tend to be in a somewhat high risk level, which may result in additional losses as the program matures. However, it is felt the financial assistance provided to small business is worth the risk as part of the economic development strategy of the province.

During 1991 the activities in this division, in total, including loans made by the small business loans associations, assisted in creating 582 new Saskatchewan businesses, assisted in the creation of a total of 1,618 new jobs and maintained a further 1,410.

Size Distribution
(Total Number of Loans = 75)



Loan Size	Dollar Amount
0 - $25,000	$ 521,400
25,000 - 50,000	923,000
50,000 - 75,000	290,000
75,000 - 100,000	273,000
100,000 - 150,000	408,000
150,000 - 250,000	360,000
250,000 - 300,000	3,253,000
	$6,028,400

PROPERTIES

Businesses requiring industrial land, buildings or site development in Saskatchewan may take advantage of purchase and lease alternatives offered by the Properties Division.

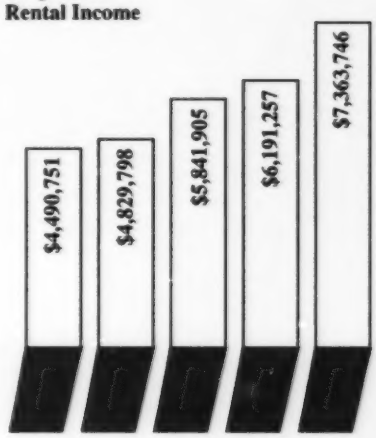
The Atrium, a three-storey office and laboratory building in Innovation Place in Saskatoon, was completed in 1991. SEDCO is focusing its leasing of this building as an agricultural research centre. Major research and development firms have expanded their operations as part of their relocation to The Atrium, together with a number of new agricultural research companies.

Innovation Place is a 120-acre research park located adjacent to the University of Saskatchewan. SEDCO manages seven of the ten buildings on site, and leases facilities to 51 private and public sector entities. The park provides a concentrated centre for advanced scientific and technological activity. Major research and development activities are centred around agricultural biotechnology, computing and communications, environment and engineering.

During 1991 SEDCO entered into a joint venture with a Regina company, which will see the development of an incubator mall. This project is designed to reflect the needs of high technology and research and development activities, and will provide services to start-up businesses.

Projects during 1991 assisted in the creation of approximately 71 new jobs. Rental income in 1991 totalled $7.4 million, an increase of approximately $1.1 million compared with 1990.

Properties
Rental Income



PROVINCIAL ECONOMIC BENEFITS

SEDCO's impact on the provincial economy during the year was significant. The corporation's loan and construction activities, including participating loans and small business loans associations, resulted in the creation of 2,153 direct jobs. Wage values related to these jobs were in excess of $52 million, with increased tax revenues accruing to the provincial government of approximately $3.8 million. Activities initiated in past years continue to produce benefits, maintaining an additional 8,025 jobs with an approximate wage value of $205 million and provincial tax revenues in excess of $14.4 million. Benefits arising from the corporation's provision of rental properties and spin-off effects have not been included in these figures. Therefore, the actual impact of SEDCO's activities is far greater than reported.

BENEFITS BY ACTIVITY

	1991		1990	
	Created	Continuing	Created	Continuing
EMPLOYMENT				
Loans	362	3,649	260	3,270
Lease Options	32	94	19	120
Participation & Small Business	1,618	4,141	2,305	3,106
Construction-Loan Clients	102	102	289	289
Construction-Direct	39	39	107	107
TOTAL	**2,153**	**8,025**	**2,980**	**6,892**
WAGE VALUE				
Loans	$6,701,000	$93,349,000	$6,097,000	$89,327,000
Lease Options	816,000	2,414,000	520,000	3,271,000
Participation & Small Business	41,392,000	105,350,000	62,966,000	84,847,000
Construction-Loan Clients	2,609,000	2,609,000	7,895,000	7,895,000
Construction-Direct	998,000	998,000	2,923,000	2,923,000
TOTAL	**$52,516,000**	**$204,720,000**	**$80,401,000**	**$188,263,000**
TAX REVENUE				
Loans	$650,000	$6,554,000	$546,000	$6,867,000
Lease Options	57,000	169,000	40,000	252,000
Participation & Small Business	2,906,000	7,437,000	4,840,000	6,523,000
Construction-Loan Clients	183,000	183,000	607,000	607,000
Construction-Direct	70,000	70,000	225,000	225,000
TOTAL	**$3,866,000**	**$14,413,000**	**$6,258,000**	**$14,474,000**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

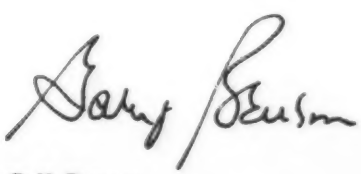
The accompanying financial statements of the Saskatchewan Economic Development Corporation have been prepared by corporate management in accordance with generally accepted accounting principles, and necessarily include some amounts based on informed judgment and management estimates. Financial data presented elsewhere in this Annual Report is consistent with that in the financial statements.

The corporation's independent auditors, Deloitte & Touche, have examined the financial statements of the corporation. The scope of their examination, and their opinion on whether these financial statements present fairly the corporation's financial position and operating results, are given in the Auditors' report.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility to the ongoing operation. Management maintains an appropriate system of internal accounting controls, policies and procedures to provide reasonable assurance that all financial transactions are recorded on a timely basis with proper approvals, and result in reliable financial statements.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an Audit Committee which is composed entirely of outside directors. The committee meets periodically with management and is available to meet with the independent auditors to review internal accounting controls, audit results and accounting principles and practices.

On behalf of management,



G. K. Benson
Vice President, Finance &
Administration

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan:

We have audited the statement of financial position of the Saskatchewan Economic Development Corporation as at December 31, 1991 and the statements of operations and deficit and of changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants

February 4, 1992
Regina, Saskatchewan

STATEMENT OF FINANCIAL POSITION

As At December 31
(Thousands of Dollars)

ASSETS		
Cash	$ 37	$ —
Loans (Note 3)	154,604	162,077
Share investments (Note 4)	861	4,109
Property holdings (Note 5)	87,147	84,255
Deferred charges and prepaid expenses	2,389	2,011

LIABILITIES AND PROVINCE'S DEFICIENCY		
Bank indebtedness	$ —	$ 832
Accounts payable and accrued liabilities	10,248	7,290
Notes payable (Note 6)	36,131	68,038
Long term debt (Note 7)	260,566	201,566
Province of Saskatchewan's Deficiency		
Equity advances (Note 8)	56,000	50,000
Deficit	(117,907)	(75,274)
	(61,907)	(25,274)

Approved on behalf of the Board

Director

Director

(See accompanying notes)

STATEMENT OF OPERATIONS AND DEFICIT

Year Ended December 31
(Thousands of Dollars)

REVENUE		
Loans and investments	$ 14,940	$ 14,317
Property	7,832	6,439
EXPENSES		
Rental property	4,340	3,694
General corporate	5,704	5,411
Income before the following	12,728	11,651
Interest expense	27,120	24,413
Provision for losses on loans	22,601	4,422
Write-down of property and share investments to net realizable value	5,640	2,363
LOSS FOR THE YEAR		
Deficit, beginning of year	75,274	55,727
DEFICIT, END OF YEAR		

(See accompanying notes)

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31
(Thousands of Dollars)

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Loss for year	$(42,633)	$(19,547)
Add non-cash items		
Depreciation	908	668
Provision for losses on loans	22,601	4,422
Write-down of property and share investments	5,640	2,363
	(13,484)	(12,094)
Loans:		
Disbursements	(46,902)	(52,984)
Repayments	29,948	35,227
Property disposals financed	(1,946)	(667)
Share investments:		
Acquisitions	—	(1,100)
Dispositions	1,205	2,650
Property holdings:		
Acquisitions	(5,849)	(10,588)
Dispositions	1,873	677
Dispositions financed by loans	1,946	667
Net change in other non-cash items	985	(462)
CASH USED IN OPERATING ACTIVITIES		
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Proceeds of long term debt	95,000	25,000
Repayment of long term debt	(36,000)	—
Net (reductions) additions to notes payable	(31,907)	13,359
Equity advances	6,000	—
CASH PROVIDED BY FINANCING ACTIVITIES		
INCREASE (DECREASE) IN CASH DURING YEAR		
BANK INDEBTEDNESS, BEGINNING OF YEAR		
CASH (BANK INDEBTEDNESS), END OF YEAR		

(See accompanying notes)

1 SIGNIFICANT ACCOUNTING POLICIES

a) Allowance for Doubtful Accounts

Accounts in arrears are reviewed on a regular basis by management. Where a potential loss is identified, the exposure is compared to the estimated value of the security and an appropriate provision established. Interest revenue is not accrued for accounting purposes on loans where a write-off is anticipated.

In addition, a general provision is taken against potential doubtful accounts in the participating loans program.

b) Depreciation

With the exception of Innovation Place, depreciation on rental assets is calculated using the amortization method. The assets are amortized over 25 years, assuming an interest cost of 10 per cent.

The depreciation on the Innovation Place property is provided under the sinking fund method. Under this method depreciation is charged to income in amounts which increase annually consisting of fixed annual sums together with interest compounded at the rate of 5 per cent per annum so as to fully depreciate the property over its estimated useful life. The property consists of buildings with an estimated useful life of 50 years and sites and improvements with an estimated useful life of 33 years.

c) Property Holdings

Property under development is carried at the lower of cost and net realizable value.

The Corporation capitalizes the following in arriving at the cost of property under development:

- Land acquisition costs
- Direct development costs
- Administration costs applicable
- Interest

Where the net realizable value of specific properties being held for development does not exceed book value, interest relating to the property is charged to current operations.

Estimated total development costs are taken into consideration in calculating gains or losses on sale of parcels of land forming part of industrial development. Sales are recognized at the date nonconditional offers to purchase are approved by the Corporation and appropriate consideration has been received.

Rental properties and office furniture and equipment are carried at the lower of depreciated cost and net realizable value.

d) Share Investments

The Corporation has acquired shares in both public and private companies which are carried at the lower of cost and net realizable value. Where there is a parent-subsidiary relationship, the subsidiary is not consolidated with the accounts of the Corporation when a formal plan exists to dispose of the investment. When no formal plan exists to dispose of the investment, the investment is accounted for by the equity method. When investments are carried at cost, dividends are recorded as income when received. Where there is a permanent impairment in value, the investment is written down to its estimated realizable value.

2 STATUS OF THE CORPORATION

The Corporation was incorporated in 1963 pursuant to The Industrial Development Act, and as a wholly owned Provincial Crown Corporation, is not subject to either Federal or Provincial income tax. The financial results of the Corporation are included in the consolidated financial statements of the Crown Investments Corporation of Saskatchewan. In its capacity as a crown corporation, the Corporation acts as an agent for the Province in conducting lending and other programs for the purposes of economic development in the province.

3 LOANS

	1991	1990
	(Thousands of Dollars)	
Loan principal receivable		
- Regular loans	$139,133	$128,455
- Participation loans	26,217	24,193
- Small business loans	7,115	4,391
	172,465	157,039
Interest accrued and receivable		
- Regular loans	4,687	4,139
- Participation loans	158	23
	4,845	4,162
Loan costs receivable		
- Regular loans	993	614
- Participation loans	38	14
	1,031	628
Agreements for sale	4,144	4,932
Lease options less unearned income of $8,449,135 (1990 - $6,612,258)	7,551	10,019
	190,036	176,780
Less accumulated provision for		
- Regular loans	28,757	12,560
- Participation loans	6,481	2,083
- Small business loans	194	60
	35,432	14,703
	$154,604	$162,077

Included in regular loans is $333,000 (1990 - $6,543,000) from Westank Industries Ltd. a subsidiary. During 1991, no interest was accrued on these loans (1990 - $79,500). No payments were received in either 1990 or 1991.

Under the participating loans program the repayment of principal and interest is to be based on the profitability of the borrower. No interest is charged on the small business loans association program loans.

Included in loans are $26,831,626 (1990 - $34,071,301) non-performing loans, net of accumulated provision, upon which interest is not accrued.

During the year, the corporation restructured financial assistance to a client company whose business advisor was also a Director of the Corporation. The restructuring included conversion of a lease option to a $2,111,000 property holding and a $2,000,000 income debenture. In addition, $1,350,000 of guarantees were converted to a loan. At year end, loans to the company were $2,025,000 (1990 - $4,219,000) net of a provision for loss of $2,000,000 (1990 - nil).

4 SHARE INVESTMENTS

	1991	1990
	(Thousands of Dollars)	
At Cost		
Shares in subsidiary companies	$ 15,597	$ 15,747
Shares in listed company	4,500	4,855
Shares in unlisted companies	—	700
	20,097	21,302
Accumulated provision for losses	19,236	17,193
	$ 861	$ 4,109

5 PROPERTY HOLDINGS

	1991	1990
	(Thousands of Dollars)	
Property under development for industrial purposes	$ 27,146	$ 30,540
Rental properties	62,185	47,255
Rental properties under construction	823	8,556
Office furniture & equipment	1,952	1,614
	64,960	57,425
Less accumulated depreciation	4,959	3,710
	60,001	53,715
	$ 87,147	$ 84,255

Depreciation for the year amounted to $908,000 (1990 - $668,000).

The average depreciation rate for assets was 2.0 per cent (1990 - 2.1 per cent).

These values include interest capitalized during the year in the amount of $1,503,000 (1990 - $1,148,000).

Included in property holdings are non-performing assets in the amount of $22,827,046 (1990 - $25,038,230).

6 NOTES PAYABLE

		1991	1990
		(Thousands of Dollars)	
Province of Saskatchewan			
March 28, 1991	11.48%	$ —	$ 61,996
December 31, 1991	0.00%	—	6,042
March 31, 1992	7.32%	15,004	—
March 31, 1992	7.28%	19,482	—
December 31, 1992	0.00%	1,645	—
		$ 36,131	$ 68,038

7 LONG TERM DEBT

		1991	1990
		(Thousands of Dollars)	
Province of Saskatchewan			
January 15, 1991	9.50%	$ —	$ 16,000
June 1, 1991	7.08%	—	5,000
June 3, 1994	8.46%	7,383	7,383
October 1, 1995	9.34%	3,857	3,857
June 1, 1998	9.41%	8,407	8,407
July 12, 2000	11.25%	25,000	25,000
June 2, 2006	9.62%	10,000	10,000
July 10, 2007	9.83%	4,000	4,000
March 3, 2008	9.62%	3,000	3,000
August 10, 2008	10.06%	3,919	3,919
		65,566	86,566
Crown Investments Corporation of Saskatchewan			
December 30, 1991	9.00%	—	15,000
February 25, 1993	9.75%	40,000	40,000
May 28, 1993	8.65%	15,000	15,000
November 10, 1993	10.25%	10,000	10,000
April 15, 1994	10.50%	25,000	—
June 10, 1994	10.00%	25,000	—
November 21, 1994	10.00%	20,000	—
April 16, 1996	9.75%	10,000	10,000
July 6, 1999	9.88%	25,000	25,000
January 9, 2001	11.00%	25,000	—
		195,000	115,000
		$260,566	$201,566

$40,566,000 (1990 - $45,566,000) of the Province of Saskatchewan debt with an original term of 20 years, is subject to redemption on 6 months notice.

8 EQUITY ADVANCES

These advances are non-interest bearing and are payable at the discretion of the Crown Investments Corporation of Saskatchewan.

9 CONTINGENT LIABILITIES

As at December 31, 1991, the Corporation was contingently liable under loan guarantees in the amount of $10,477,000, of which $4,252,000 are to a subsidiary and $3,650,000 are to other parties that were related at the time of the transaction.

10 COMMITMENTS

a) The total amount not yet disbursed on loans approved is $47,908,000.

b) The Corporation has approved guarantees which were in force but not used at December 31, 1991 amounting to $698,000.

c) The costs to complete properties approved for development approximate $447,000.

11 PENSION PLAN

Substantially all employees are members of the Capital Pension Plan Inc., which is a defined contribution plan. The Corporation's financial obligation to this plan is limited to making regular payments to the plan to match the amounts contributed by the employees for current services.

12 RELATED PARTY TRANSACTIONS

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

Other amounts owing to related parties and their terms of settlement are described separately in the financial statements and the notes thereto.

In order to ensure that related party transactions are handled in an appropriate manner, the Corporation has conflict of interest rules whereby Directors having a relationship with any applicant must absent themselves from Board discussion and approval of the financial assistance to be provided. In all cases where any such financial assistance was provided the Directors have complied with the conflict of interest rules.